

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 8 September 2021<sup>1</sup>

**SERBIA**

**EDS SMART METERING EXPANSION**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

AMI	Advanced Metering Infrastructure
AMM	Automatic Metering Management
EDS	Elektrodistribucija Srbije
EMS	Elektromreze Srbije
EPS	Elektroprivreda Srbije
CAPEX	Capital Expenditures
CFADS	Cash Flows Available for Debt Service
CFF	Cash Flow from Financing
CFI	Cash Flow from Investments
CFO	Cash Flow from Operations
CO2	Carbon Dioxide
CGAP	Corporate Governance Action Plan
CP	Condition Precedent
CBA	Cost Benefit Analysis
DSCR	Debt Service Cover Ratio
EBITDA	Earnings Before Interest Tax and Depreciation
EIB	European Investment Bank
EURIBOR	European Inter-Bank Offer Rate
ESAP	Environmental and Social Action Plan
EU	European Union
GET	Green Economy Transition
HES	Head End System
IMP	Institut Mihajlo Pupin
IPA	Instrument for Pre-Accession Assistance
LV	Low voltage
MDMS	Meter Data Management Systems
MV	Medium Voltage
MoE	Ministry of Mining and Energy of the Republic of Serbia
MoF	Ministry of Finance of the Republic of Serbia
NECP	National Energy Climate Plan
PIU	Project Implementation Unit
PRs	EBRD Performance Requirements
RAB	Regulated Asset Base
RES	Renewable Energy Sources
RSD	Serbian Dinar
SEP	Stakeholder Engagement Plan
SSF	EBRD Shareholder Special Fund
TSO	Transmission System Operator
WACC	Weighted Average Cost of Capital

**Currency conversion** EUR 1 = RSD 117.9

## **PRESIDENT’S RECOMMENDATION**

This recommendation and the attached Report concerning an operation in favour of “Elektrodistribucija Srbije d.o.o.” (“EDS”, the “Company”, or the “Borrower”), an electricity distribution service provider incorporated in Serbia, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan to EDS in the amount of up to EUR 40 million.

The operation will enable EDS to finance the roll-out the first phase of smart metering infrastructure in Serbia. Further rollout is expected to be financed by the European Investment Bank (“EIB”), once the first phase is completed. Due diligence was carried out jointly with EIB, which relied on updated feasibility study supported by EBRD. The Project is closely linked to Serbia’s efforts to reduce CO2 emissions, digitalise and modernise its electricity distribution network, and improve energy efficiency by investing in smart meters and transitioning towards smart electricity grid.

The expected transition impact of the Project is from the Resilient and Green qualities. The Project will result in a reduction of technical and non-technical losses, improve collection rates, and result in other range of operational benefits for the distribution system. Furthermore, the Project will lead to 5,000 CO2 emission savings per annum and will be 100% GET.

Shareholder Special Funds (“SSF”) provided TC support to carry out the Update of the Feasibility Study and a Consumer Awareness Campaign.

I am satisfied that the operation is consistent with the Bank's Country Strategy for Serbia, the Bank's Energy Sector Strategy 2019-2023, the Green Economy Transition (GET) Approach 2021-2025 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

<b>Serbia – EDS Metering Expansion - DTM 51299</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign-guaranteed loan of up to EUR 40 million in favour of Elektro distribucija Srbije d.o.o. (the “Borrower”, “EDS” or the “Company”), a limited liability company established under the laws of Serbia. The loan will finance the first phase of smart metering infrastructure (the “Project”). Procurement will be carried out in accordance with the Bank’s PP&R. Following the implementation of the first phase, the Borrower intends to implement a second phase roll out which will be financed by a EUR 40 million sovereign guaranteed loan from EIB.
<b>Client</b>	EDS is the electricity distribution company covering all of Serbia and 100% owned by the Republic of Serbia (BB+/Ba2/BB+). EDS was recently fully unbundled from EPS, vertically integrated power utility. [REDACTED]
<b>Main Elements of the Proposal</b>	<p><b>Transition impact:</b> Transition impact stems from <i>Resilient</i> and <i>Green</i> qualities.</p> <p>The Project will result in reduction of technical and non-technical losses, improve collection rates, reduce costs associated with manual metering and facilitate integration of prosumers into the system. In addition, the Project will result in estimated 5,000 CO2 emission savings p.a. and will be 100% GET.</p> <p><b>Additionality:</b></p> <p>(i) <i>Financing structure:</i> EBRD offers a tenor and grace period above the market average, which is necessary to structure the Project. The Bank’s financing is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, and complements later funding from EIB. As a result of the Bank’s support the Borrower is willing to take on more risk and/or finance, enabling outcomes such as innovation.</p> <p>(ii) <i>Standard setting:</i> The Bank provides expertise, knowledge and capabilities that are material to the timely realisation of the Project’s objectives, including support to strengthen the procurement capacity of the Company.</p> <p><b>Sound banking:</b> The Project satisfies sound banking criteria due to the forecast standalone viability of EDS and the acceptable quality of the sovereign risk.</p>
<b>Key Risks</b>	The risks relate to the Company’s capacity to implement the Project within schedule. These risks will be mitigated by engaging loan funded consultants to assist the Company with all aspects of project implementation. Potential external interference risk will be mitigated by careful project planning.
<b>Strategic Fit Summary</b>	The Project is fully consistent with the Bank’s Country Strategy for Serbia by promoting green transition, as Serbia suffers from high levels of energy intensity and remains vulnerable to climate change, the Bank’s Energy Sector Strategy by promoting rapid deployment of technologies required to improve energy efficiency and reduce emissions intensity of energy, and the Green Economy Transition (“GET”) Approach 2021-2025.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign guaranteed loan in the amount of up to EUR 40 million to Elektrodistribucija Srbije d.o.o. (the “Borrower”, “EDS” or the “Company”), a limited liability company fully owned by the Republic of Serbia. The loan will finance first phase of metering infrastructure in distribution areas of Kraljevo, Cacak and Nis (the “Project”). A second phase of the smart metering rollout is intended to be financed with EUR 40 million loan from EIB. [REDACTED]
<b>Existing Exposure</b>	None.
<b>Maturity / Repayment</b>	Thirteen (13) years [REDACTED].
<b>Potential AMI</b>	n/a
<b>Use of Proceeds</b>	The proposed loan will finance smart metering deployment, software, hardware installation and integration of the system thereby presenting a start of advanced metering infrastructure (“AMI”) deployment. The EBRD financed phase is expected to cover the installation of [REDACTED] smart meters [REDACTED]. The Use of Proceeds will be covenanted and monitored as per the Loan Agreement ( <i>refer to Conditions to disbursement, and Key Covenants below</i> ).
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Elektrodistribucija Srbije d.o.o.</li> <li>• Ministry of Finance of the Republic of Serbia (“MoF”)</li> <li>• Ministry of Mining and Energy of the Republic of Serbia (“MoE”) [REDACTED]</li> </ul>
<b>Conditions to effectiveness</b>	<ul style="list-style-type: none"> <li>• Ratification of the Loan Agreement by the Parliament of Serbia;</li> <li>• [REDACTED] Project Implementation Unit established by the Borrower with sufficiently qualified staff and time dedicated to the Project.</li> </ul>
<b>Conditions to disbursement</b>	<ul style="list-style-type: none"> <li>• Appointment by EDS of an external consultant (PIU Consultant) to support the project implementation unit during project preparation, implementation, appointed and acceptable to the Bank;</li> </ul>
<b>Key Covenants</b>	<ul style="list-style-type: none"> <li>• [REDACTED] Satisfactory implementation of the Environmental and Social Action Plan (“ESAP”).</li> </ul>
<b>Security / Guarantees</b>	Sovereign guarantee.
<b>Other material agreements</b>	Guarantee Agreement with the Republic of Serbia.
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<ul style="list-style-type: none"> <li>• Updated feasibility study: EUR 74,500 funding obtained from SSF. Consumer awareness campaign: EUR 60,000 funded via SSF. [REDACTED]</li> </ul>

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

The Western Balkans regional energy sector faces a number of challenges due to years of underinvestment and slow progress in the implementation of reforms resulting in high carbon-intensity, low energy efficiency, and a high level of energy losses.

The Western Balkans 6 (WB6) countries signed a Sustainability Charter in July 2016 to pursue transition towards a low carbon and sustainable energy sector, where one of the priorities is to improve energy efficiency governance. The implementation of smart metering is obligatory under EU energy market legislation in the Third Energy Package with forecast of 80% roll out by 2020 in all member countries of EU with a positive Cost-Benefit Analysis.

- i. Moreover, the Directives 2009/72/EC and 2009/73/EC, which have been transposed into the Serbian energy legal framework, set specific requirements for the development of electricity and natural gas smart meters roll-out plans. [REDACTED]

In April 2021, the Republic of Serbia has adopted two new laws, the Law on Renewable Energy Sources and the Law on Energy Efficiency, as well as amendments to the Energy and Mining Laws. These laws will enable significant growth in renewable energy sources, promote rational use of energy, ensure climate change actions are taken, and enable introduction of prosumers in the system. Moreover, the recently adopted amended Energy Law proposes to determine the binding share of renewable energy in gross final consumption and transport in the upcoming NECP. [REDACTED]

The proposed Project will further strengthen the Bank's position as a key stakeholder in the sector promoting digitalisation of the distribution grid, renewable development, state-owned enterprise commercialisation and efficiency improvements. It will improve the security and reliability of power supply, facilitate the integration of upcoming renewable energy projects in the system, enable introduction of prosumers, reduce technical and commercial losses in line with international best practices, and improve the collection rates.

The Project is part of larger Smart Grid implementation strategy planned by EDS, which involves automatisation of mid voltage distribution systems and Smart Grid solution, including Advanced Management Distribution System (ADMS), implemented at the five Regional Centres and centralized National Data Control Centre. The Project will be the first and crucial step towards digitalisation, modernisation and transition to the smart electricity grid.

Additionally, the deregulation of the energy market, the increasing penetration of distributed generation, are only some of the changes that are reshaping the distribution system. While these changes potentially open new opportunities for a more sustainable and environmentally friendly operation of the distribution grid, they also create new challenges for the safe management and control of the system. As a result, the distribution grid, which is previously intended to operate in a passive way and with very simple control logic, is now becoming an active complex system with bi-directional flows. To deal with the increasing complexity, new solutions and technologies are needed. This is the additional argument for the deployment of a suitable smart metering infrastructure.

The loan is complemented and strengthened by a Bank-led TC package, which supported EDS by financing the update of feasibility study, and which will additionally finance a consumer awareness campaign at the start of the project. The Project has been prepared in close coordination with EIB which participated in due diligence and which will finance further rollout once the Project implementation is finalized.

The Project is fully consistent with the Energy Sector Strategy which aims to “*facilitate improvements in energy efficiency, support integration of intermittent renewables and promote development of well-functioning energy markets through investments in distribution networks, smart grids, smart metering and demand-side management*”.

The Project is fully consistent also with the Bank’s Country Strategy for Serbia, which states that the Bank will support “*energy efficiency, enhancing renewable energy, and promoting sustainable practices*”. The Project will help start the smart metering roll out which is an important step in reducing carbon intensity.

The Project will also contribute to improving resilience of Serbia energy sector to the impacts of climate change in line with the Green Economy Transition (GET) Approach 2021-2025.

## 1.2 TRANSITION IMPACT

Obj. No.	Objective	Details
<b>Primary TI Quality: Resilient</b>		
1.1	<i>The project supports the roll out of smart electricity meters in an EU or Energy Community country. The installed meters meet the 10 common minimum functionalities for smart metering systems defined by European Commission Recommendation 2012/148/EU.</i>	The Bank’s use of proceeds will be used to introduce Advanced Metering Infrastructure (AMI), including smart customer meters (with remote reading and remote disconnection capabilities) together with related infrastructure, software, communications equipment, training and commissioning. The introduction of AMI is expected to lead to a wide range of benefits that have both quantitative (financial) and qualitative character. These include (i) a significant reduction in network losses, (ii) increased bill collection rates, (iii) savings on meter readings, (iv) optimized power use and a reduction of peak power, (v) better fraud detection, (vi) an end to estimated billing, and (vii) an improved environment for prosumers to engage with the Serbian power system.
<b>Secondary TI Quality: Green</b>		
2.1	<i>The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 15% or higher.</i>	The Bank’s loan will finance the roll out of [REDACTED] smart electricity meters in three towns in Serbia, Kraljevo, Cacak and Nis. The project has been confirmed to by 100% GET Clearing House. The latest feasibility study estimates that the project will lead to CO2 emission savings at 5,000 tons per annum.

[REDACTED]

## 1.3 ADDITIONALITY

The Project is the first project relating to power distribution in Serbia and first project with the Borrower. It represents the Bank’s commitment to supporting the Borrower in lower

carbon intensity through electricity usage optimization. It will also contribute to strengthening climate change adaptation.

Additionality sources	Description
<p><b>Financing Structure:</b></p> <ul style="list-style-type: none"> <li>- EBRD offers a tenor, which is above the market average and is necessary to structure the project.</li> <li>- EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</li> </ul>	<p>Tenor is 13 years [REDACTED].</p> <p>[REDACTED] Further roll out will be financed by EIB. Therefore, EBRD does not crowd out other sources, such as from IFIs, but complements them.</p>
<p><b>Standard-setting:</b> helping projects and clients achieve higher standards</p> <p>Client seeks/makes use of EBRD expertise on best international procurement standards.</p>	<p>The Bank provides expertise, knowledge and capabilities that are material to the timely realisation of the Project's objectives, including support to strengthen the capacity of the Client.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<p><b>Project implementation risk</b></p>	<p>Medium/High</p>	<p>Risk of Project implementation delays or Project cancelation. [REDACTED]</p> <p><b>Mitigation:</b></p> <ul style="list-style-type: none"> <li>• Project preparation will incorporate procurement planning, budgeting, and procurement procedure selection. The pre-tendering phase (prequalification) will be used to ensure successful procurement management and minimize the necessity of contract modifications.</li> <li>• A PIU consultant will assist with running the procurement process, including tender documents in accordance with the Bank's PP&amp;R for public operations. In addition, the Bank's in-house technical expert and project implementation advisor will be supporting the PIU in review of tender documentations including technical requirements, and overseeing the procurement process.</li> </ul>
<p><b>Counterparty Creditworthiness Risk</b></p>	<p>Medium/High</p>	<p>Although the loan is sovereign guaranteed the repayment will rely on the EDS's capacity to service its debt.</p> <p><b>Mitigation:</b></p> <ul style="list-style-type: none"> <li>• <b>Conservative financing structure:</b> [REDACTED].</li> <li>• <b>Solid cash generation</b> The Borrower has stable and growing regulated revenues, good operating margins and cash generation [REDACTED].</li> <li>• <b>Low current indebtedness</b> [REDACTED].</li> <li>• <b>Low future indebtedness</b> [REDACTED].</li> </ul>

<b>Tariff affordability</b>	Medium / Low	<p>Distribution tariffs may need to be raised to allow for EDS to recover the costs of the Project.</p> <p><b>Mitigation:</b></p> <ul style="list-style-type: none"> <li>• Tariffs are currently at a very low level (among the lowest in the region) and therefore, if required, a modest increase will have a limited impact on affordability.</li> <li>• The Project itself targets network losses and collections by reducing theft and improving collection rates. Accordingly, it has a limited impact on end-user tariffs, because the reduction of losses implies lower recovery of regulated costs, thus lower tariffs.</li> </ul>
<b>FX and Macro Risk</b>	Medium/ Medium	<p>Loans are denominated in EUR, whereas the EDS's revenues and costs are denominated in RSD.</p> <p><b>Mitigation<sup>3</sup>:</b></p> <ul style="list-style-type: none"> <li>• Despite a significant decline in FDI and remittances, the structure of the economy (with less reliance on tourism and higher share of basic goods such as food and some chemicals in manufacturing), as well as large government aid packages and less restrictive lockdown measures for most of the year, contributed to the GDP contraction of only 1.0%. [REDACTED]</li> </ul> <p>Inflation has remained low [REDACTED] and is expected to stay within the lower half of the inflation target range of Serbia's central bank in 2021. The RSD has been quite stable in over five years. [REDACTED]</p>

<sup>3</sup> The information was collected and included here as at early August 2021.

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> <li>- Compliance with design standards and project specifications;</li> <li>- On-time project implementation</li> </ul>	<ul style="list-style-type: none"> <li>- Standard quarterly Progress Reports covenanted in the Loan Agreement;</li> <li>- Completion according to the timeline and within the budget.</li> </ul>	[REDACTED]

### Primary Quality: Resilient

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>	<b>TC<sup>4</sup></b>
1.1	Compliance with pre-signing requirements standards	The feasibility study confirmed that technical specifications of the SMs will be in compliance with minimum requirements of European Commission Recommendations 2012/148/EU.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Operational performance of the client: losses reduced	Distribution network non-technical losses reduced (% associated with EBRD funded meters), where loss is defined as percentage of electricity available in the system.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Operational performance of the client: losses reduced	Distribution network technical losses reduced (% associated with EBRD funded meters), where loss is defined as percentage of electricity available in the system.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Number of new/improved electricity/energy service(s) connections	Number of smart meters increased as part of Phase 1 of the rollout (i.e. based on EBRD funding).	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

<sup>4</sup> Select Y if this indicator is related to a TC

**Secondary Quality: Green**

<b>Obj. No.2</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>	<b>TC</b>
2.1	New or updated GET technology or product leading to energy efficiency introduced	EBRD financed phase of Advanced Metering Infrastructure (AMI) is completed.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	CO2 Emissions reduced or avoided (tons/year)	Total CO2 emissions reduced as a result of reduction in technical losses in grid.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

EDS is Serbia's electricity distribution operator, fully-owned by the Government of Serbia. The Company is in charge of managing and maintaining the distribution grid throughout the country. Up to January 2021, EDS was owned by EPS, the 100% state-owned vertically integrated power utility. The ownership was transferred to the Government of Serbia as final step in unbundling the distribution system from EPS. This separation was envisaged by the Energy Law, adopted in 2014, and comes within the transposition of the European Union's Third Energy Package.

EDS serves serve 3.7 million consumers and performs the distribution of electricity to its users via 196 main substations 110/x kV and 582 primary substations 35/x kV with length (overhead and cable network) over 163,372 km of MV and LV network. Regarding the structure of voltage levels, there are five (5) categories: 110 kV, 35 kV, 20 kV, 10 kV and 0.4 kV. In 2020, total electricity consumption was c. 30 TWh, and peak power of about 8,048 MW.

EDS has a monopoly over electricity distribution in Serbia. The distribution is carried out by five regional subsidiaries of EDS: Elektrovojvodina (Novi Sad region, 28% of distributed electricity), Elektrodistribucija (Belgrade region, 26%), Elektrosrbija (Kraljevo region, 23%), Jugoistok (Niš region, 16%) and Centar (Kragujevac, 7%). [REDACTED]

According to the Council of European Energy Regulators, in period of 2010 until 2018, no country in the EU had distribution losses over 9% in a year, whereas the average was below 5%.<sup>5</sup> Considering the data provided, it is clear why this Project and other measures to reduce losses are important as a way of preventing further irreversible loss of revenues.

**COVID 19 impact:** [REDACTED] Although COVID-19 did not have a major impact on EDS, there was a negative trajectory in terms of loss reduction as a result. [REDACTED] The situation improved from September 2020 and normalized in terms of these activities.

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<sup>5</sup> <https://www.ceer.eu/documents/104400/-/-/fd4178b4-ed00-6d06-5f4b-8b87d630b060>

#### 4. MARKET CONTEXT

EPS, the former owner of EDS, carries out electricity generation, coal mining, electricity supply, and trading. EPS is the guaranteed supplier of all electricity customers at regulated prices, although it also supplies other end customers on the open electricity market. [REDACTED]

In spite of energy market liberalization since 2015, EPS remained the leading electricity supplier [REDACTED] in the country due to its ownership of generation assets (hydro and lignite). The transmission in Serbia is operated by a legally separate public enterprise, Elektromreza Srbije (EMS) 100% owned by the Government of Serbia.

The legal framework for the electricity sector governance is the Energy Law that was the basis of regulatory changes since 2015 and follows the EU Directives. The Energy Agency (AERS) is a single authority for regulating the energy sector of Serbia and is organized as a fully independent agency. As an EU accession candidate country, and as a member of the Energy Community, Serbia has been working to align its energy policy and regulatory system with EU standards.

[REDACTED] The recently adopted amended Energy Law proposes to determine the binding share of renewable energy in gross final consumption [REDACTED].

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL PROJECTIONS**

[REDACTED]

### **5.2 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorised B (2019 ESP). The environmental and social impacts associated with the installation of smart meters are limited and can be readily managed. Due diligence for this project was undertaken by the ESD specialist and included a review of the technical due diligence report.

The project involves the installation of smart electricity meters, with the potential for coverage of up to 80% of households when the programme is fully implemented. The meters will reduce commercial and technical losses and help to improve the efficiency of electricity supply in Serbia. The first phase to be financed by EBRD is expected to result in a CO2 saving of around 5,000 tonnes per annum, and the full programme could save around 68,000 tonnes per year. The installation and operation of the meters should not be associated with significant environmental or social impacts if managed in line with good practice. An ESAP will be agreed with the client requiring them to ensure that customers are aware of the installation programme, are contacted in good time and are able to have faults or grievances rectified quickly. The Bank will be providing TC support for consultants to help the Borrower in developing an awareness-raising plan and designing communications material. The ESAP will also require that contractors be competent in installing electrical equipment safely and that EDS develop a waste management plan for re-use, recycling or safe disposal of old equipment.

This investment in smart metering will make a meaningful contribution towards modernising the electricity sector in Serbia. The Bank will monitor the project through environmental and social reports.

## 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on EDS, its senior management, and Board members. [REDACTED] This Project does not pose an unacceptable reputational or integrity risk to the Bank.

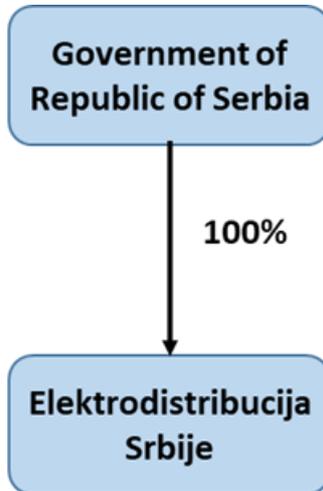
[REDACTED] Procurement for this project will follow the Bank's PP&Rs. All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

**ANNEXES TO OPERATION REPORT**

<b>No.</b>	<b>Name</b>
Annex 1	Shareholding Structure
Annex 2	Borrower's Historic Financials
Annex 3	Transition Impact Scoring Chart
Annex 4	Project Implementation and Procurement Plan
Annex 5	Smart Metering Project Description

## Annex 1 – Shareholding Structure

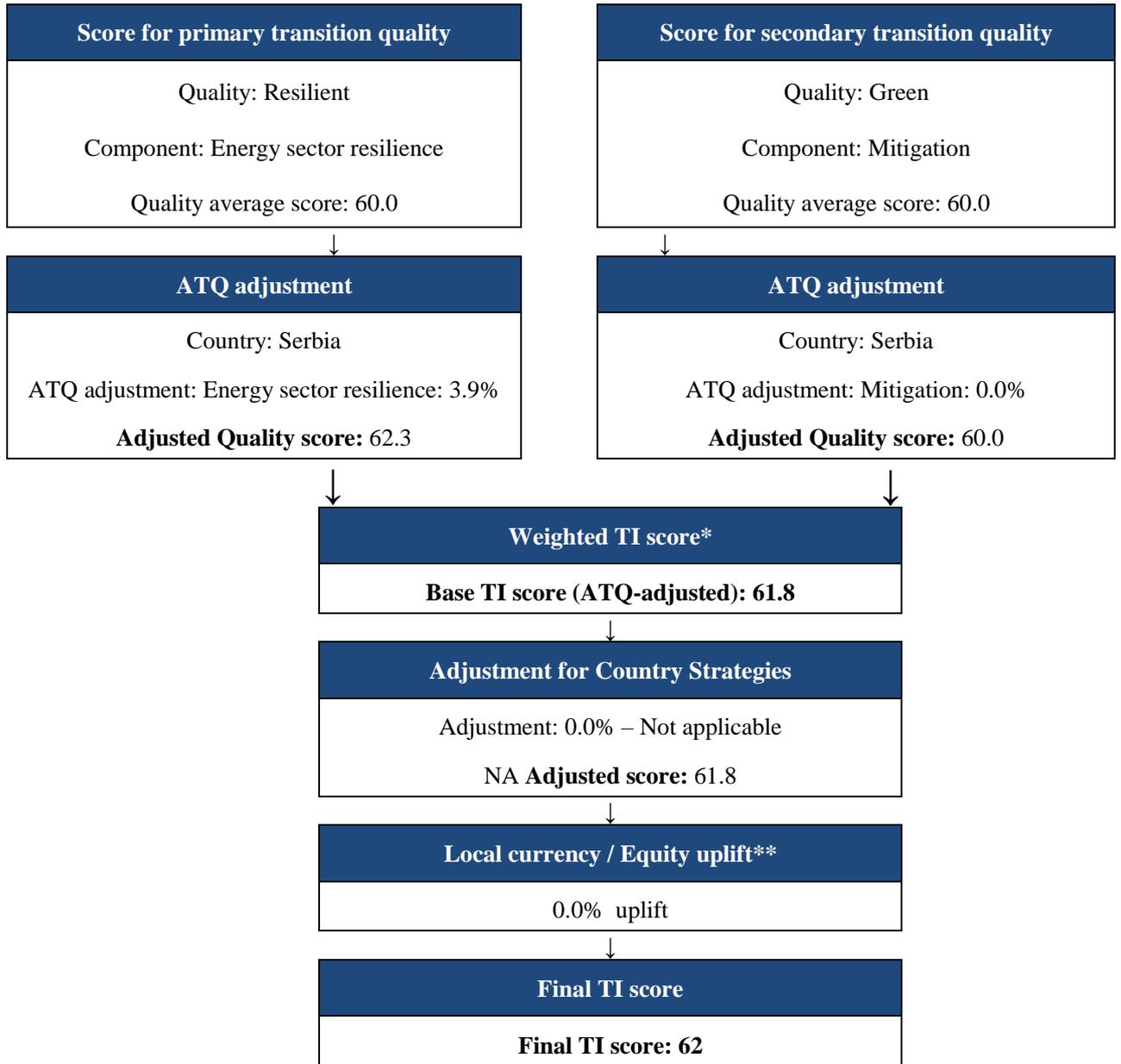
EDS is completely unbundled from JP EPS and is now operating as a separate entity, owned fully and directly by the Government of Serbia (*as indicated on the graphics below*).



## **Annex 2 – Borrower’s Historic Financials**

[REDACTED]

### Annex 3 – Transition Impact Scoring Chart



\* The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

## Annex 4 – Project Implementation and Procurement Plan

### Procurement classification – *Public sovereign*

[REDACTED] The Executing Agency for the Project will be EDS, which will be responsible for the day-to-day implementation of the project. The Client has established a suitably qualified Project Implementation Unit for this purpose. Whilst the Client has experience in implementing similar projects, the Bank's Procurement Capacity Assessment has revealed that it has limited experience in the implementation of similar projects under IFI procurement procedures. As such, the project envisage that an independent consultant will be appointed to support the PIU in all procurement matters concerning the implementation of the project and supervise the implementation of the project.

#### **Contracts risk assessment:** *Moderate –high*

The scope of the contracts to be covered by the project is not technically challenging. [REDACTED]

There is a potential risk for low competition and high prices resulting from the tendering processes. To mitigate this risk, prior to the commencement of the procurement process, the PIU consultant will be tasked with assisting the client to undertake a focussed market research exercise to verify that there is sufficient market interest in the contract to enable a competitive procurement process to be undertaken in accordance with the Bank's PP&R.

#### **Procurement arrangements:**

The project is classified as a public sector operation for procurement purposes.

The project envisages finance by EBRD of the first phase of the project of the supply and installation of IT and metering infrastructure contract. The next phase of the project involving further roll out of smart meters is to be financed by EIB loan [REDACTED] Currently, the procurement strategy for the award of the supply and installation of IT and metering infrastructure contract considers an Open Multiple Stage tendering procedure, in accordance with the provisions of Section 3 of the Bank's PP&Rs. The EBRD standard tender documents for Goods or Supply and Install will be used as advised by the PIU support consultant and agreed by the Client and the contract financiers.

The consultancy services will be procured in accordance with the procedure described in Section 5 of PPR. All procurement will be undertaken by the use of EBRD's Client e-Procurement Platform, ECEPP.

[REDACTED]

### **Annex 5 – Smart Metering Project Description**

EDS has to implement a significant smart metering infrastructure that would be able to cover a large number of metering points, at virtually all voltage levels. The metering infrastructure implemented within the distribution network largely depends on the characteristics of the distribution network itself, such as:

- i) types of distribution network (rural, suburban, urban);
- ii) characteristics of grid users (install power, contracted power, security of supply, quality of service, power quality);
- iii) customer connection types (direct on distribution grid, deeply into distribution grid);
- iv) ownership of the distribution elements and the substations.

[REDACTED]